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SUPPLEMENTAL TO DIRECT
TESTIMONY OF A. R. WATTS
OF
THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

DOCKET NO. 2004-178-E

IN RE: SOUTH CAROLINA ELECTRIC & GAS COMPANY -
APPLICATION FOR ADJUSTMENTS IN THE COMPANY'S ELECTRIC RATES
AND CHARGES

**Q. WOULD YOU PLEASE STATE YOUR NAME, ADDRESS AND
OCCUPATION?**

A. A. R. Watts, 101 Executive Center Drive, Columbia, South Carolina. I am
employed by the Public Service Commission of South Carolina, as Chief of
Electric in the Utilities Department.

**Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY IN
THIS PROCEEDING?**

A. The purpose of my supplemental testimony is to provide support for the
Stipulation and Settlement Agreement reached between the Commission
Staff and South Carolina Electric & Gas Company concerning certain matters
and issues in this pending general rate application case. My supplemental
testimony is being offered as a result of collective negotiations, is for
settlement purposes only, and is motivated by a spirit of cooperation and

1 collaborative efforts. As such my supplemental testimony will specifically
2 speak to Staff Adjustment Nos. 5 and 23 which address the Turbine
3 maintenance issue and the GridSouth Regional Transmission Organization
4 matter.

5 **Q. PLEASE PROVIDE YOUR COMMENTS IN REFERENCE TO THE**
6 **TURBINE MAINTENANCE ISSUE.**

7 **A.** In my direct testimony I recognized the fact that these essential activities will
8 add more costs, and I also referenced the greater level of uncertainty
9 associated with projections in the outer years of the Company's proposed
10 eight-year maintenance cycle. As a consequence I recommended using the
11 average of the initial four years of the cycle, as well as booking the difference
12 between actual costs and the level of expense allowed in rates into a
13 regulatory asset or liability account that would be filed in report form with the
14 Commission after three years for any further action it finds appropriate. In our
15 collaborative process Staff has agreed to accept the eight-year average O &
16 M expense calculation of the Company accompanied by the booking and
17 three year review recommendation, and in addition the Company will accrue
18 interest on the balance of any resulting liability at the overall rate of return
19 approved in this case as a further measure to protect the retail ratepayers.

20 **Q. PLEASE PROVIDE YOUR COMMENTS CONCERNING THE GRIDSOUTH**
21 **REGIONAL TRANSMISSION ORGANIZATION MATTER?**

22 **A.** In my direct testimony I did not take exception to the Company's proposal to
23 amortize investment expenses incurred in the GridSouth Project but
24 recommended the Company not be allowed a return on the unamortized

1 balance as a way of sharing these costs between ratepayers and
2 stockholders. Again, in an effort to effectuate an appropriate and fair
3 settlement, and in further recognition of the Company's voluntary use of its
4 Federal income tax credits from its synthetic fuel operations to mitigate the
5 cost of the Saluda Dam Remediation Project, a suitable and appropriate
6 compromise would be to allow carrying cost on the unamortized balance of
7 the GridSouth expenses.

8 **Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?**

9 A. Yes. It does.

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